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PHILIPS LUMILEDS LIGHTING COMPANY, LLC

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

EPISTAR CORPORATION,

Plaintiff,

vs.

PHILIPS LUMILEDS LIGHTING
COMPANY, LLC.

Defendant.

AND RELATED COUNTERCLAIMS

Case No. C 07-5194 CW

[PUBLIC] PHILIPS LUMILEDS
LIGHTING COMPANY'S REPLY IN
SUPPORT OF ITS MOTION FOR STAY

MOTION UNDER SUBMISSION
PURSUANT TO COURT ORDER DATED
JANUARY 29, 2008

1 **I. INTRODUCTION**

2 Epistar's reply identifies no valid basis to deny Lumileds' motion to stay the present
 3 action. Epistar cannot credibly claim that it will be irreparably harmed if its claim for breach of
 4 the covenant not to sue is stayed. Indeed, Epistar chose to abandon this claim during the
 5 investigation by the U.S. International Trade Commission ("ITC") in which Epistar was found to
 6 infringe the patent. There is also no merit to Epistar's opposition to staying its claim to declare
 7 the UEC/Lumileds License Agreement null and void, since that and other settlement agreements
 8 are already before the Federal Circuit, and Epistar has admitted that it is bound by those
 9 agreements. Epistar's remaining claims for unfair competition and tortious interference all relate
 10 to statements concerning the scope of the ITC's final determination and exclusion order, which
 11 are also before the Federal Circuit. For these and other reasons discussed below, judicial
 12 economy, *res judicata*, and the interests of avoiding piecemeal litigation and potentially
 13 inconsistent resolutions all weigh in favor of staying Epistar's present action against Lumileds
 14 until the related ITC proceedings are resolved.

15 **II. EPISTAR WILL NOT BE IRREPARABLY HARMED IF ITS CLAIM FOR**
BREACH OF THE COVENANT NOT TO SUE IS STAYED

16 Epistar's contention that it will be irreparably harmed if the alleged breach of the covenant
 17 not to sue is not resolved "as quickly as possible" (Opp. at 2) is belied by its own actions in the
 18 ITC. Epistar raised the covenant not to sue as an infringement defense in the ITC, pursued that
 19 defense throughout the entire discovery period in the ITC and into the evidentiary hearing before
 20 the administrative law judge. Epistar then *voluntarily withdrew that defense* on the fourth day of
 21 the hearing, not merely on the "fourth day of the ITC Action," as Epistar erroneously states. *See*
 22 Epistar Op. at 3. Thus, the only reason "[t]here have been no rulings or decisions by the ITC as to
 23 whether the OMA LED products are or are not covered by the covenant [not to sue]" (Opp. at 4)
 24 is because Epistar waived this defense before the ITC could explicitly address it. Indeed, the
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1 Administrative Law Judge noted in his decision that [[

2]] Initial

3 Determination, at 73 n. 310.

4 Having waived its covenant not sue defense before the ITC, Epistar can no longer assert it
 5 as a defense to the ITC's imposition of an exclusion order forbidding Epistar from importing any
 6 of the infringing OMA products. Moreover, the ITC's and Federal Circuit's resolution of this
 7 contract issue, like other non-patent issues, is entitled to *res judicata* effect in this Court. *Union*
 8 *Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 45-46 (2d Cir. 1985); *Teletronics Proprietary,*
 9 *Ltd. v. Medtronic, Inc.*, 687 F. Supp. 832, 846-47 (S.D.N.Y. 1988). Thus, Epistar's waiver of this
 10 defense before the ITC precludes them from pursuing this defense here.

11 Epistar's professed desire to avoid "irreparable harm" also rings hollow because this
 12 Court cannot grant Epistar the relief it seeks. Epistar claims that the covenant issue must be
 13 resolved quickly so that "the ITC's Exclusion Order preventing the importation of these accused
 14 products currently in place can be modified accordingly." Epistar's Opp. at 2. This Court,
 15 however, has no jurisdiction to review or modify the ITC's exclusion order, or to issue a writ of
 16 mandamus ordering the ITC to make such a modification. *Ashlow Ltd. v. Morgan Constr. Co.*,
 17 672 F.2d 371, 375 (4th Cir. 1982); *Meditech Int'l Co. v. Minigrip, Inc.*, 648 F. Supp. 1488, 1493-
 18 94 (N.D. Ill. 1986). Epistar must seek such relief from the ITC itself or the Federal Circuit, as
 19 appropriate. Yet having withdrawn that very issue from the ITC, Epistar is estopped from raising
 20 it again in that forum.

21 Epistar also distorts the understanding of the parties on this matter. As Lumileds' counsel,
 22 Mr. Johnson, made clear at the evidentiary hearing, Epistar's decision to abandon its defense was
 23 beyond the control of Lumileds: "We couldn't stop them in the first place, but we agreed that
 24 they have dropped the covenant not to sue defense" See Exh. A to the Declaration of Lenny
 25

1 Huang in Support of Epistar Corporation's Opposition to Philips Lumileds Lighting Company,
2 LLC's Motion for Stay, at 815:22-24. Mr. Johnson concluded, "[A]nd we'll deal with it at such
3 time as they raise it again." *Id.* at 815:24 – 816:1. Lumileds simply agreed that the defense had
4 been dropped, and that the consequences of that decision would be addressed if and when Epistar
5 tried to raise it again. This claim can easily be dealt with in this matter because Epistar's
6 abandonment of this defense before the ITC precludes them from pursuing this defense here. In
7 any event, Lumileds certainly did not agree that the issue could be resurrected in an entirely new
8 litigation, nor did it waive its right to move to stay such a proceeding or take any other
9 appropriate action.

10 Even if Epistar were permitted to pursue its covenant-not-to-sue defense in this matter,
11 this would only provide a further justification for a stay because both this defense and the patent
12 infringement charge require an analysis of the structure of the OMA product. [[
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]] This inquiry overlaps substantially with the technical discovery and analysis that is
required to prove infringement, an issue common to both the ITC action and the Lumileds/Epistar
2005 Patent Litigation.

Given these common issues, as well as the absence of any irreparable harm to Epistar, the present action should be stayed pending resolution of the appeal from the ITC investigation in order to avoid piecemeal litigation, simplify the issues, and promote judicial economy.

III. THE PENDING APPEAL WILL DIRECTLY AFFECT EPISTAR'S CAUSE OF ACTION TO VOID THE UEC/LUMILEDS LICENSE AGREEMENT

Equally baseless is Epistar's claim that the so-called UEC/Lumileds Patent License Agreement "is not at issue in the ITC Action or at issue in the Patent Action." Epistar's Opp. at 4. Epistar admitted in the ITC that the UEC/Lumileds Patent License Agreement is but one part of the same settlement package that contains the UEC/Lumileds Settlement Agreement [[

]]. In fact, the UEC/Lumileds License Agreement and [[]] are, respectively, Exhibits A and B to the UEC/Lumileds Settlement Agreement, which Epistar admits was before the ITC and is now being considered as part of the appeal. Lyons Decl. ¶ 5.

The Commission, moreover, considered all of those documents, as well as the Epistar/Lumileds License Agreement, when it determined that Epistar is bound by UEC's agreement not to challenge the validity of the '718 patent in any future litigation with Lumileds. See Declaration Of Andrew J. Wu In Support Of Philips Lumileds Lighting Company's Motion To Stay ("Wu Decl.") ¶¶ 4, 7, 8, Lumileds' Exh. B at 8, Exh. E, Exh. F at 14-15. Those determinations are presently before the Federal Circuit, and its resolution of those issues will be binding on this Court. *Telecommunications*, 687 F. Supp. at 846-47 (ITC's determination on a license matter is entitled to *res judicata*); *Union Mfg.*, 763 F.2d at 45-46 (ITC determinations on non-patent matters are entitled to *res judicata*). There is no basis, then, to artificially divide the UEC/Lumileds License Agreement from the [[]] or Settlement Agreement, or to claim that the License was not before the ITC or Federal Circuit when it is admitted that the

1 other two agreements were submitted for their consideration.

2 Epistar's present opposition, not to mention the declaratory judgment claim itself, is also
 3 undermined by the fact that Epistar expressly and repeatedly admitted before the ITC and the
 4 Federal Circuit that it "assumed *all* of UEC's assets, liabilities, contracts, and obligations,"
 5 including the UEC/Lumileds Settlement Agreement, as a result of its merger with UEC in
 6 December 2005. *See, e.g.*, Lyons Decl. ¶¶ 4, 6, Exh. H at 2, 7, Exh. I at 8-9 (emphasis added).
 7 The Commission likewise found that Epistar had voluntarily assumed "all" of UEC's obligations,
 8 including its settlement agreements, when the companies merged in December 2005. *See* Wu
 9 Decl. ¶¶ 4, 8, Exh. B at 8, Exh. F at 9, 15, 20, 26-27, 32-33.
 10

11 Thus, Epistar's opposition to the stay requires a complete reversal of the positions that
 12 Epistar has previously taken before the ITC and the Federal Circuit. Epistar seeks to accomplish
 13 this legerdemain by mischaracterizing its transaction with UEC as an "assignment," even though
 14 Epistar has already admitted, and the ITC has found, that Epistar voluntarily assumed those
 15 agreements when it merged with UEC. Such an assumption did not require Lumileds' consent
 16 and, thus, it could not even theoretically void the agreement. There is no reason to deny
 17 Lumileds' motion to stay and permit Epistar to pursue this baseless claim, particularly while the
 18 appeal from the ITC investigation is still pending before the Federal Circuit.
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20 **IV. THE UNFAIR COMPETITION CLAIMS OF BOTH LUMILEDS AND EPISTAR
 21 ARE DIRECTLY RELATED TO THE ITC EXCLUSION ORDER CURRENTLY
 22 UNDER APPEAL**

23 As for its remaining claims for unfair competition and tortious interference, Epistar
 24 ignores the fact that all of those claims focus on the very ITC decision that is presently on appeal.
 25 Epistar claims that Lumileds disseminated allegedly "misleading information" about the scope of
 26 the ITC's infringement determination and its exclusion order, and seeks to enjoin Lumileds from
 27 making such alleged misrepresentations. Complaint, ¶¶ 12, 16, 20, 30, 37, 39, 41; Epistar's Opp.
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1 at 5. The scope and propriety of the exclusion order is now before the Federal Circuit. *See, e.g.*,
2 Wu Decl. ¶ 4, Exh. B at 23-34 (describing the scope of the remedy, now on appeal).
3 Accordingly, Epistar's unfair competition and tortious interference claims should be stayed
4 pending resolution of the appeal from the ITC investigation.
5

6 **V. CONCLUSION**

7 For the foregoing reasons, this Court should grant Lumileds' motion to stay this litigation
8 and all deadlines currently in effect pending the resolution of the related ITC proceedings.
9

10 Dated: February 22, 2008

Respectfully submitted,

11 MORGAN, LEWIS & BOCKIUS LLP

12 By: /s/ Michael J. Lyons
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13 Attorneys for Defendant and
14 Counterclaimant
15 PHILIPS LUMILEDS LIGHTING
COMPANY, LLC
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